



**Michigan**

**Alliance for**

**Competitive**

**Telecommunications**

## **MiACT Statement in Support of State Merger Approval Authority**

**Michigan House Committee on Energy and Technology**

**Wednesday, May 17, 2006**

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## **MiACT Statement in Support of State Merger** **Approval Authority**

The Michigan Alliance for Competitive Telecommunications (MiACT) would like to take this opportunity to commend Chairperson Nofs and the members of the Michigan House Committee on Energy and Technology for examining the issue of state merger approvals. We would like to add our support for this important legislative initiative to those who believe that this is a sound public policy initiative. We believe that at the conclusion of your review of this matter that you will agree that giving the state's "Competition Cop" statutory approval authority will be an important change that will benefit all residential and business telecommunications users in Michigan.

As we are sure you will hear as the debate on this issue unfolds, many states already possess some kind of authority in this area. In fact we believe it could be argued that Michigan by considering this issue at this time is already "late to the party" as it relates to giving the "Competition Cop" this important competition protection tool. If we look at the surrounding states, Ohio and Illinois already possess this important enforcement power.

We believe that the record in this area will demonstrate that the present lack of this important authority has cost the state considerable economic clout as state specific concessions have gone to the states with strong merger approval authority. While primary jurisdiction with multi state utility mergers rests with the federal government, states with merger approval can insure important protections and savings to residential and business customers with the additional power of a state merger approval law.

Looking specifically at the telecommunications area we see that the FCC has a long history of working on a cooperative basis with the state public service commissions. Thus, a state merger approval law will give that state an additional voice in partnership with the FCC on telecommunications mergers impacting the state. This supplemental voice is something that will be especially helpful to Michigan residential and small business customers who do not possess the choices that many big businesses have in today's marketplace.

An excellent example of a state using its merger approval authority to positively impact a multi state merger is the Illinois Commerce Commission's (ICC) proceedings in the merger of Ameritech and SBC. Despite primary jurisdiction being held by the FCC, the ICC was able to gain several important Illinois specific protections for Illinois customers. Since the MPSC lacked any merger approval authority it was powerless to impact this critical reshaping of the local telephone market landscape in Michigan.

The ICC proceeding dealing with the merger review, ICC Docket 98-0555, makes for interesting reading and should be reviewed as the discussion on this subject continues in Michigan. The ICC decision in this proceeding was entered on September 23, 1999. Attached to this decision please find ICC SBC/Ameritech Reorganization Docket 98-0555, Summary of Conclusions Reached and Conditions Imposed. A review of the nine page Summary reveals that the ICC was able to enforce 25 state specific conditions on the merger. Among the areas included in the Illinois conditions were provisions dealing with customer quality of service, fair treatment of competitors, employment levels and compliance with the agreed upon commitments..

This strong pro consumer and pro competition proceeding demonstrates that an effective merger approval law, even when primary jurisdiction resides at the federal level, can have very positive impact for the state in question. MiACT would encourage Michigan to enact a similar law to give the state "Competition Cop" appropriate enforcement tools in this vital area.

## **Illinois Commerce Commission**

### ***SBC/Ameritech Reorganization Docket 98-0555***

#### **Summary of Conclusions Reached and Conditions Imposed**

The Illinois Commerce Commission ("Commission" or "ICC") has reached the following conclusions related to the merger of SBC/Ameritech.

The attached document summarizes the Commission's conclusions in key areas as well as all conditions which the Commission has agreed to impose on the merger of SBC and Ameritech as applied under section 7-204(f) of the Illinois Public Utilities Act. Section 7-204(f) provides that the Commission, in its approval of a reorganization, may impose "such terms, conditions or requirements as, in its judgment, are necessary to protect the interests of the public utility and its customers." The conditions which the Commission has imposed are summarized below under the relevant section of the Act which governs the decisions of the Commission in this matter.

**All conditions summarized below are contained in full in the Commission's Final Order. The Commission's Final Order will be made available to all parties to the proceeding in keeping with standard Commission practice. All decisions summarized below are for informational purposes only. The Commission's Final Order shall stand as the ultimate authority in this proceeding.**

## ***Conditions Imposed under Section 7-204(f) related to Section 7-204 (b)(1)***

### **I. Out of Service Greater than 24 Hours ("OOS>24")**

- SBC/Ameritech must pay a \$15 million penalty if they miss the current OOS>24 hour standard in the last 30 days of a 180 day period to begin upon the close of the merger
- For subsequent annual periods beginning one year after the end of the 180 day period mentioned above, SBC/Ameritech must pay a \$30 mm penalty if they miss the current OOS>24 hour standard for subsequent annual periods
- The existing \$4 mm permanent rate reduction contemplated in Ameritech's Alternative Regulation Plan ("Alt Reg") remains unchanged and is imposed in addition to other penalties imposed above
- Such conditions are to remain in place for five years after closing, but SBC/Ameritech may petition the Commission after three years that such conditions are no longer necessary. The Commission retains sole discretion in granting such petition

### **II. Network Infrastructure Investment**

- Renewal of Ameritech's \$3 billion investment in network infrastructure in Illinois for a period of 5 years or as modified by the Commission in the upcoming review of Ameritech's "Alt Reg" plan
- SBC/Ameritech must issue an annual report detailing for the Commission the areas of investment (both geographical and technological) for the five years of the investment period
- Such conditions are to remain in place for five years after closing, but SBC/Ameritech may petition the Commission after three years that such conditions are no longer necessary. The Commission retains sole discretion in granting such petition

### **III. 911 Practices of SBC/Ameritech**

- All operational changes to the 911 system must receive Commission approval prior to the change being made by the companies
- All changes made by SBC/Ameritech must be transparent to the system and its subscribers

### **IV. Best Practices of the Combined Companies**

- Issuance by SBC/Ameritech of an annual report detailing the best practices adopted by the companies for five years after closing
- Such annual reports are to remain in place for five years after closing, but SBC/Ameritech may petition the Commission after three years that such reports are no longer necessary. The Commission retains sole discretion in granting such petition

***Conditions Imposed under Section 7-204(f) related to Section 7-204 (b)(2)***

**V. Updated Cost Allocation Manuals**

- Updated Cost Allocation Manuals under ICC rules governing telecommunications carriers in accordance with ICC Staff recommendations in order to ensure that there will be no unjustified cross-subsidization in the newly merged SBC/Ameritech. All submissions of updated Cost Allocation Manuals are to be audited by an independent third party which is to be paid for by SBC/Ameritech and determined by the Commission

***Conditions Imposed under Section 7-204(f) related to Section 7-204 (b)(3)***

**VI. Access to Books, Accounts and Records of SBC/Ameritech**

- ICC Staff to have access to all books, accounts, records, etc. of SBC/Ameritech in order to ensure that costs are fairly and reasonably allocated among the companies for ratemaking purposes. In addition, the Commission shall be reimbursed for all reasonable out of state travel expenses incurred by ICC Staff in fulfilling such condition

***Conditions Imposed under Section 7-204(f) related to Section 7-204 (b)(7)***

**VII. Updated Cost Studies**

- SBC/Ameritech will submit within 6 months of final regulatory approval of the merger, updated Long Run Service Incremental Cost (LRSIC) studies, Total Element Long Run Incremental Cost (TELRIC) studies, and shared and common cost studies to the Commission. Such updated cost studies will be used in the Commission's analysis of the upcoming rate rebalancing, TELRIC investigations and review of the Company's Alternative Regulation Plan

***Conclusions Reached under Section 7-204(c)***

**VIII. Merger Savings Allocated to Ratepayers**

- On a long-term basis, all merger related savings will be accounted for in the Commission's review of the Alternative Regulation Plan which governs Ameritech's retail rates
- On an interim basis until the Commission completes its review of Ameritech's Alternative Regulation Plan, 50% of the actual net savings realized by SBC/Ameritech as a result of the merger shall be allocated to competing telecommunications carriers in Illinois (through reduced rates on Unbundled

Network Elements, interconnection and transport) and interexchange, wholesale and retail customers (through reduced access charges or per line credits)

- "Savings" are defined as actual reductions in costs and expenses, not revenue enhancements realized by the companies as a result of the merger
- SBC/Ameritech may recover costs directly associated with the utility's operations which are related to the merger. However, merger related transaction costs such as legal fees, investment banking fees, etc. are not to be netted against savings
- SBC/Ameritech must track actual merger-related savings for three years and submit such merger-related savings information to the Commission in its annual price cap filings
- The Commission shall hire a third party auditor to develop accounting standards and assist the Commission in ensuring accurate tracking of merger related savings by SBC/Ameritech. SBC/Ameritech are to continue to use the Uniform System of Accounts (USOA)

#### ***Other Conditions Imposed under Section 7-204(f)***

#### **IX. Shared Transport**

- Adoption of SBC/Ameritech commitment to offer a "short-term" and a "long-term" "shared transport" to CLECs in Illinois. The provision of shared transport by SBC/Ameritech will allow CLECs to gain access to the portions of Ameritech's network which connect central phone offices to one another and allow for increased ability of competitors to provide local exchange service
  - SBC/Ameritech must provide the "short term" version of shared transport which SBC has offered to its competitors in Texas within 30 days of the Commission's final order or upon merger closing, whichever is sooner
  - SBC/Ameritech must provide the "long-term" solution within 1 year of merger closing, which will be a permanent solution and incorporate advanced technology to measure usage by CLECs for pricing purposes

#### **X. Interconnection Agreements**

- Adoption of series of definitive conditions related to interconnection agreements, which govern the contractual interactions of Ameritech and CLECs competing in Illinois
  - *Interconnection Commitment A*
    - All negotiated interconnection agreements (i.e. those not determined by state Commission arbitration) of SBC and

Ameritech and any subsequently acquired ILEC, entered into before or after the merger, must be made available to Illinois CLECs upon request upon the close of the merger

- Only those negotiated interconnection agreements which are not technically feasible in Illinois or contrary to Illinois law or policy may be excepted from such condition. Burden is on SBC/Ameritech to demonstrate that agreement is either not technically feasible or contrary to Illinois law or policy, with a Commission decision on an expedited basis
- Pricing for interconnection agreements adopted into Illinois must ultimately be Illinois specific, but until Illinois specific pricing can be determined by the Commission, existing rates from adopted interconnection agreement go into effect, with differences subject to a subsequent reconciliation
- *Interconnection Commitment B*
  - Establishes collaborative workshop to compare agreements SBC/Ameritech have made available in other states which CLECs desire in Illinois, as well as process for determining technical feasibility and other determinations
- *Interconnection Commitment C*
  - SBC/Ameritech must make available a list of all interconnection agreements from other states to the Commission prior to the close of the merger. Such agreements will be made available to CLECs for review
- *Interconnection Commitment D*
  - SBC/Ameritech must make available to CLECs in Illinois UNEs or interconnection agreements obtained by the SBC/Ameritech out-of-region CLEC if such provisions are technically feasible. CLECs do not have to be "similarly situated" to SBC/Ameritech out-of-region CLEC

#### **XI. Operations Support Systems ("OSS")**

- SBC/Ameritech shall improve OSS interfaces for Illinois CLECs in order that they may more effectively gain access to SBC/Ameritech's OSS. Such conditions will encourage facilities-based competition in the local exchange marketplace
- *Application to Application Interfaces*
  - Deployment of commercially ready, industry standard OSS (Electronic Data Interchange/Electronic Bonding Interface) to support pre-ordering, ordering, provisioning, maintenance and repair and billing through three phase process
    - Phase 1: Within 3 months of the close of the merger, SBC/Ameritech must provide a "plan of record" which includes assessment of existing OSS, business

processes and rules, hardware capabilities, data networks and security issues

- Phase 2: Collaborative process to begin at the conclusion of Phase 1 to last 3 months. Parties shall reach agreement on OSS interfaces, enhancements, business requirements, and change management process. A majority of CLECs may request arbitration by the Commission after one month. All disputes shall be resolved by the Commission
- Phase 3: Within 12 months of completion of Phase 2 or a final arbitrated decision by the Commission, SBC/Ameritech would develop and deploy, on a phased-in basis, system interfaces, enhancements, and business requirements consistent with the agreements reached in Phase 2. The Commission shall arbitrate any disputes related to non-compliance
- *Third Party Testing*
  - Commission shall retain an independent third party to assist in the phased process with regard to technical considerations. The third party will also conduct "New York" style testing, as defined by the Commission, during Phase 3. Such third party shall be paid for by SBC/Ameritech and report to the Commission
- *Graphical User Interfaces (GUI)*
  - Deployment of GUI, within a timeframe similar to that of application to application interfaces, for OSS using industry standards on a similar 3 Phase approach to application to application interfaces
- *Direct Access to Service Order Processing Systems*
  - Development and deployment of direct access to SBC's SORD or Ameritech's SOAC service processing systems for resold services, individual UNEs, and combinations of UNEs within one year of request
  - CLEC and SBC/Ameritech must each pay 50% of the costs of development and deployment of such systems
  - Available for 30 months after closing

## **XII. Performance Measurements**

- Implementation of 122 of 122 performance measurements determined by the Commission within 300 days of closing
  - If SBC/Ameritech can demonstrate technical infeasibility on any of 122 measurements, the Commission may grant a waiver
  - SBC/Ameritech shall pay \$30 million to CLECs and community interests if they fail to implement 122 performance measurements within 300 days (excepting those subject to technical infeasibility as

determined by the Commission). In addition, SBC/Ameritech must make an additional payment based upon the liquidated damage caps established in this proceeding. Additional fines shall not exceed \$90 million

- Once performance measures are implemented, SBC/Ameritech shall be subject to a \$90 million annual cap on liquidated damages payable to CLECs
- All performance measures must be based on comparison to performance Joint Applicants provide to their own operations. Burden of proof (preponderance of evidence) remains with Joint Applicants to demonstrate no retail analog exists and benchmark must be used
- Requirement of independent audit of Joint Applicants' systems, documentation and practices in order to ensure accurate and reliable compliance with such process, to be paid for by the Joint Applicants

### **XIII. Performance Monitoring Reports**

- Commission and Staff shall have access to Joint Applicants' performance monitoring website. SBC/Ameritech shall also issue performance monitoring reports on a quarterly basis in same fashion as commitments made to the FCC; all reporting, however, must detail performance relative to performance measurements on a carrier by carrier basis

### **XIV. Cellular Notification**

- SBC/Ameritech shall provide cellular customers of both companies' cellular subsidiaries with notice regarding the pending merger and sale of the cellular property. SBC/Ameritech shall afford the purchaser of the cellular property the opportunity to participate in the specifics of such notice

### **XV. Compliance Reporting**

- With respect to all reports submitted by SBC/Ameritech as a result of the Commission's decision (best practices, network infrastructure investment, performance monitoring, etc.), the veracity of each report shall be certified by the SBC/Ameritech compliance officer as true, accurate and complete

### ***Voluntary Commitments of SBC/Ameritech for Ameritech's 5 State Region***

#### **XVI. Headquarters**

- Commitment by SBC/Ameritech to maintain Ameritech Corporation headquarters and Ameritech Illinois state headquarters

#### **XVII. Name**

- Commitment by SBC/Ameritech to use the Ameritech name in each state of the Ameritech region

#### **XVIII. Charitable Contributions**

- Commitment by SBC/Ameritech to continue Ameritech Illinois' historic levels of charitable contributions and community activities

#### **XIX. Development**

- Commitment by SBC/Ameritech to continue to support economic development and education in Ameritech's regions consistent with the past practices of Ameritech

#### **XX. Employment**

- SBC/Ameritech will ensure that as a result of the proposed reorganization, employment levels in Ameritech's regions will not be reduced due to the merger

### ***Voluntary Commitments of SBC/Ameritech Related to Illinois***

#### **XXI. Community Enrichment**

- Commitment by SBC/Ameritech to establish a Consumer Education Fund which will receive a total of \$3 million over 3 years
- Commitment by SBC/Ameritech to establish a Community Technology Fund which will receive a total of \$3 million over 3 years
- In conjunction with the Community Technology Fund, SBC/Ameritech will provide funding of \$1.45 million over 3 years for the creation and support of a Community Computer Center

#### **XXII. ADSL Deployment**

- Commitment by SBC/Ameritech that in the event ADSL service is offered to residential customers in any Ameritech Illinois central office, then ADSL service will be offered to residential customers in any other Ameritech Illinois central office where ADSL is subsequently deployed

#### **XXIII. Use of TRI to Serve Disabled Customers**

- SBC commitment to use its research and development subsidiary, TRI, to serve Illinois' disabled customers

**XXIV. Section 251 of Telecommunications Act -- Compliance Efforts**

- Commitment by SBC/Ameritech to meet with Commission Staff within 30 days of the close of the merger to address any current issues Staff may have regarding Ameritech Illinois' compliance with Section 251. SBC/Ameritech also commit to meet with Staff on a quarterly basis thereafter to address continuing concerns

**XXV. Enforcement and Compliance Monitoring**

- Commitment by SBC/Ameritech to appoint a corporate officer to oversee implementation of and compliance with all commitments and conditions of the Commission related to the merger
  - SBC/Ameritech shall file a public report with the Commission detailing its compliance with commitments and conditions
  - SBC/Ameritech shall engage independent auditors to issue a compliance report which will verify compliance